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WESTERN EUROPE: Reactions to President's Speech

Allied governments publicly have welcomed the President's speech as a sign the US will improve its military capabilities but believe it is premature to make detailed comments on proposals to develop new defenses against ballistic missiles. []

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West German Defense Minister Woerner cautioned that the new proposals would not solve the security problems that NATO faces today and stressed that the Alliance will continue its current strategy for the next 10 to 15 years. He also said the West will have to continue its efforts to achieve balanced disarmament agreements for all categories of weapons. []

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British officials privately questioned whether research on space-based defensive weapons violates the Antiballistic Missile Treaty. They are concerned that such new systems would increase the vulnerability of the UK's small deterrent force and encourage opponents of the new Trident nuclear submarines. They also expect the Labor Party to question the extent of London's consultations with Washington on plans affecting vital British defense interests. []

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An Italian Foreign Ministry official said it was too early for his government to provide a definitive reaction to the speech. He questioned, however, whether the USSR would now begin similar antiballistic missile programs. A Norwegian military official, speaking privately, said he believes the West should not pursue the technological research described by the President. []

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Comment: Allied governments do not believe the US is changing its deterrent strategy. They hope that if a change does take place, it would be closely coordinated with them. The UK and France particularly would object to the development of a strategy by the US that called into question the survivability of their independent nuclear deterrents. []

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USSR-NICARAGUA: Andropov's Meeting With Ortega

General Secretary Andropov's meeting with Sandinista leader Ortega in Moscow yesterday was his first public appearance since the rumors earlier this week concerning his health. [redacted]

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Ortega's stopover followed visits to Mongolia and the Nonaligned Summit in New Delhi. Andropov expressed great sympathy for Nicaragua but said he is confident of the Sandinistas' ability to defend themselves. The conversation was described as "friendly" and characterized by "complete mutual understanding." [redacted]

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Comment: The meeting seems timed to show Soviet support as the Sandinistas are facing a growing insurgency but does not suggest Moscow is willing to provide substantial additional assistance. The Soviets, however, are conducting a propaganda campaign condemning the recent US naval exercises in the Caribbean—claiming they were designed to intimidate Nicaragua. They also are accusing the US of supporting anti-Sandinista insurgents operating from Honduras. [redacted]

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Andropov has appeared every 10 to 12 days for the past two months. [redacted]

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The Soviet leader has begun to engage in more intense political activity. He probably took part in the Politburo meeting on Thursday. Rumors in Moscow indicate a Central Committee plenum could be held as early as next week. [redacted]

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UN-USSR-AFGHANISTAN: UN Secretary General's Visit

The Soviets probably will try to convey an impression of flexibility on Afghanistan in talks next week with UN Secretary General Perez de Cuellar, but major concessions are unlikely. [redacted]

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Perez de Cuellar, who arrives in Moscow tomorrow to meet General Secretary Andropov for the first time, expects UN negotiating efforts on Afghanistan to be the main subject. [redacted]

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Comment: Andropov probably wants to alleviate international criticism of the USSR's role in Afghanistan. He is thus likely to try to convince Perez de Cuellar that Moscow is seriously looking for a political way out of its involvement and values the UN's continuing help. [redacted]

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The Soviet leader may want to see if UN mediation can be exploited to ensure the survival of a pro-Soviet Marxist regime in Kabul at less cost to Moscow. He also may hope a deteriorating domestic situation in Pakistan will make President Zia more willing to accept such a regime. [redacted]

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NICARAGUA-HONDURAS: Border Tensions Increase

The Sandinistas probably will try to use recent border clashes to support their charges at the UN Security Council of Honduran aggression. []

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The Honduran military says that some shots were exchanged at the border crossing at El Espino on Thursday and that the Sandinistas responded by sending some 800 additional troops to the area. Honduras placed some forces on alert and sent another 150 troops to Choluteca, about 50 kilometers from El Espino. A Honduran military officer reports that, as of yesterday, the situation at El Espino was quiet. []

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Earlier in the week Managua protested to Tegucigalpa over an exchange of mortar fire at another border site. It also charged anti-Sandinista insurgents were attacking from Honduran territory into Nueva Segovia Department. []

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Most delegates at the Security Council sessions this week have supported the Nicaraguans. []

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Comment: The Sandinistas appear to have engaged the Hondurans at El Espino after mistaking them for anti-Sandinista insurgents. Although incidents of this kind have become more frequent in recent months, the Nicaraguans probably will exploit the one at El Espino to support their accusation that their problems are caused by external forces. []

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GUATEMALA: Political Activity Resumes

The lifting of the state of siege and the promulgation of political laws by President Rios Montt will revive partisan activity although Rios Montt has made no commitment to an election schedule. []

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The law governing the inscription of political parties reduces the number of signatures needed from 50,000 to 4,000, but it also requires that the parties have viable organizations in at least 12 of Guatemala's 22 departments. One official says 18 political parties are beginning organizational work, including the leftist Democratic Socialist Party. []

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The President was backed by an array of senior military officers when he made the announcement. He emphasized political activity is still restricted to recruiting and registering party members. He also announced a 30-day unconditional amnesty for insurgents would begin next week. []

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The insurgents have done nothing to prevent the government from lifting the state of siege and opening up the political process.

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Comment: Although party leaders have denounced the President's failure to set an election timetable, they privately admit his program may lead to honest elections. The participation of the formerly repressed Social Democrats suggests they believe Rios Montt is sincere in his commitment to elections. []

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Nevertheless, Rios Montt probably realizes political activity has to be monitored in order to prevent radicalization of new groups by the left and preemptive repression by extreme rightists. The presence of the military officers during the announcement apparently was designed to remind those who might try to exploit the new freedoms that the Army retains ultimate control. It presumably also was intended to demonstrate military unity and dispel coup rumors. []

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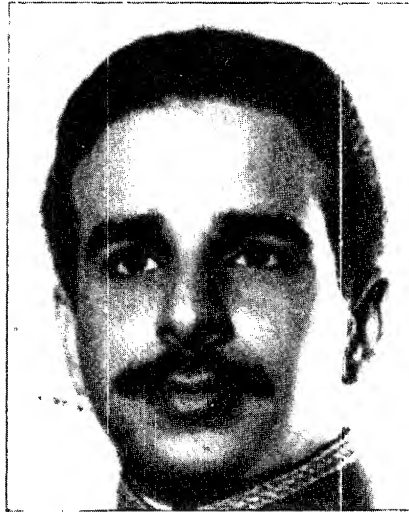
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Crown Prince Hamad



Foreign Minister Muhammad



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BAHRAIN-US: High-Level Visit

Crown Prince Hamad and Foreign Minister Muhammad will visit Washington next week to discuss military equipment purchases, US proposals for expanded access to Bahraini facilities, and the US peace initiative. [redacted]

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The US Embassy in Manama reports Hamad is particularly interested in probing US willingness to sell F-16 fighter aircraft and other military equipment to Bahrain and the other five states of the Gulf Cooperation Council. In November the Council agreed to fund as much as \$1.8 billion for military purchases by Bahrain. [redacted]

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The Bahrainis have indicated the Crown Prince will respond to US requests in December both for increased use of port and warehouse facilities by the US Navy's Middle East Force and for the storage of military equipment. Hamad told Embassy officials that the Force helps assure the security of the Persian Gulf and that Bahrain wants it to remain. [redacted]

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Hamad also will want to exchange views on the war between Iran and Iraq and the Arab-Israeli issue. Bahrain has generally supported US efforts to advance the Middle East peace process and has urged other Arabs to participate. [redacted]

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Comment: Bahrain's ruling Khalifa family hopes to avoid renewed criticism from Arab radicals, Iran, and domestic factions unhappy with the country's close links to the US. As a result, Hamad will not be likely to agree to restoring formal home port arrangements for the US fleet—a privilege ended in the mid-1970s—or to provide a base for the forward operating element of the new Central Command. Hamad probably will agree, however, to more days in port for US Navy ships and additional warehouse space for the storage of military equipment. [redacted]

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Bahrain was the target of an Iranian-sponsored coup plot in 1981, and Hamad will seek assurances of US assistance against any Iranian or Soviet subversion. Manama sees the presence of the Middle East Force, which has used the port facilities in Bahrain since 1949, as symbolic support against such threats. [redacted]

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USSR-EGYPT: Improving Relations

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Soviet Navy chief Gorshkov stopped at Cairo airport on Tuesday while on his way to South Yemen and [redacted]

[redacted] was met by his Egyptian counterpart. [redacted]

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Comment: Gorshkov's visit is part of Moscow's new effort to court Cairo. Egypt favors improved ties in order to demonstrate that its friendship with the US does not preclude normal relations with other major powers. Mubarak and other top Egyptian officials for several months have been preparing domestic and international opinion for the restoration of full bilateral ties. [redacted]

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**ECUADOR: Continued Labor Unrest**

Labor leaders, who are angered by the government's refusal to offer immediate concessions on its economic austerity program, have extended indefinitely the general strike that began on Wednesday. The largest labor organization is demanding the dismissal of the government's economic team and cancellation of the recent devaluation and price hikes for consumer goods. So far, the strike has led to limited violence. 

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Comment: Labor probably expected the government would back down in order to forestall a possible coup. If President Hurtado continues to stand firm, however, labor militants could adopt tougher tactics. Military plotters probably will wait to see the extent of violence provoked by the strike before deciding whether to move.

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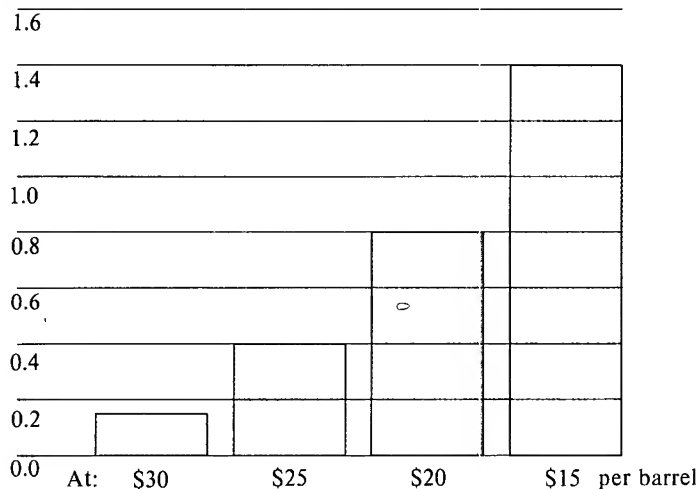

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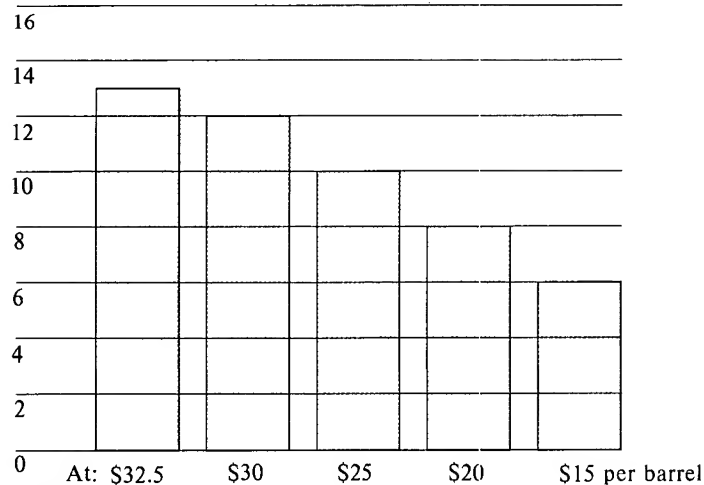
Additional Exports Required To Maintain Hard Currency Oil Revenues at Level of 1982^a

Million b/d



Hard Currency Earnings if Exports Remain at 1.1 Million Barrels Per Day^b

Billion US \$



^aAbove the estimated 1.1 million barrels
per day exported in 1982

^bEstimated for 1982

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Special Analysis

USSR: Implications of Falling Oil Prices

Lower oil prices are threatening to cancel the recent improvement in the USSR's hard currency position and cause a new shortage of hard currency this year. Since mid-December the spot price for Soviet crude oil on the world market has dropped about \$5 to below \$28 a barrel. Moscow presumably is concerned there is little prospect for a substantial recovery in prices soon.

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The USSR's balance of payments is closely tied to the hard currency it earns from sales. Oil exports accounted for roughly 40 percent of all Soviet foreign exchange receipts in 1982.

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Moscow's frequent appeals since early February to the OPEC community to close ranks on prices reflect its concern about the adverse consequences to the Soviet economy of a drop in oil prices. For every dollar per barrel the price declines, the USSR stands to lose \$400 million in revenues over a year. The recent drop of \$5 per barrel could mean a \$2 billion loss in foreign exchange earnings in 1983.

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At the same time that the Soviets are voicing concern, there is no evidence they have embarked on a campaign to undercut OPEC prices. The USSR is only a minor supplier in the international market, and it has to match any OPEC price drop simply to remain competitive.

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Indirect Repercussions

In addition to the direct loss of oil receipts, the USSR's payments position also is likely to be weakened by lower prices for other major export earners. Gas earnings will be hurt because prices under contracts with Western Europe are tied to a number of oil products. The \$3.35 per million BTUs price that Italy recently agreed to pay the Soviets is roughly \$1.35 below the base price negotiated in late 1981.

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Lower petroleum prices also have been reflected in a weakened gold market. In the last two months, gold prices have slipped approximately \$100 an ounce. Moscow's revenues from gold sales could fall nearly \$1 billion, assuming exports remain at about 300 tons this year.

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Hard currency receipts from arms sales also may decline because three of the USSR's larger customers—Algeria, Libya, and Iraq—will be less able to pay cash as a result of their decreased oil earnings. Even before the latest drop in oil prices, financial difficulties had caused some arms customers to seek deferred payment terms.

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Soviet Options

Soviet economic planners probably will react as they did last year when they decided to increase oil sales to hard currency customers in order to compensate for lower oil prices. Petroleum deliveries to all hard currency customers in 1982 are believed to have totaled 1.1 to 1.2 million barrels per day as compared with 920,000 in 1981. Even with a 10-percent drop in price, oil revenues last year were probably up to about \$13-14 billion, as compared with \$12 billion earned in 1981.

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Some Western trade sources are telling the press that Moscow is again trying to increase oil sales to compensate for price reductions. If Soviet economic planners decide to try to match hard currency revenues earned by oil sales in 1982, a \$5-per-barrel price drop would require an additional 200,000 barrels per day in sales to hard currency customers.

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Although Moscow evidently could increase deliveries by this much, sizable diversions would be necessary from East European countries and from the domestic economy. Moscow probably would be willing to accept the political cost.

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The shortages that would result from increasing exports much above this level could reduce gross national production in Eastern Europe, with potentially unacceptable political repercussions there. The performance of the Soviet economy would be hurt. Moscow, however, might try to free some additional oil for sale to hard currency customers by cutting deliveries to its barter customers, such as Cuba, as it did by a slight amount in 1982.

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Soviet planners are likely to try to adjust to an unfavorable hard currency balance of payments by reducing imports from the West. Grain imports may be reduced in 1983-84. The prospective shortage of hard currency is likely to be so large that machinery and industrial materials imports also will have to be reduced.

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